

CALIFORNIA FRANCHISE TAX BOARD

Internal Procedures Manual

General Tax Audit Manual

13000 CLOSING A CASE/CASE UNIT

GTAM 13100	CLOSING CONFERENCE
GTAM 13200	CLOSING STEPS
GTAM 13246	NO-CHANGE AUDITS
GTAM 13250	COMPLETE NOTICE WINDOW
GTAM 13260	ASSEMBLE THE PHYSICAL CASE
GTAM 13265	REFERENCE RETURNS
GTAM 13270	VERIFY ADDRESSES, STATUTE, CASE INFORMATION, ETC.
GTAM 13280	TRANSFER CASE/CASE UNIT TO NEXT LEVEL
GTAM 13290	DEACTIVATE THE BETS NOTIFICATION FLAG
GTAM 13300	OFFSET CASE
GTAM 13400	PERSONAL INCOME TAX / CORPORATION MIXED FILES
GTAM 13500	REVENUE CODES / WORKLOAD CODES
GTAM 13600	PAYMENTS RECEIVED AT AUDIT
GTAM 13700	ROUTING THE PHYSICAL & ELECTRONIC FILES
GTAM 13800	PRESERVATION OF AUDIT FILES (LIM DATING)

Reviewed: April 2003

CALIFORNIA FRANCHISE TAX BOARD

Internal Procedures Manual
General Tax Audit Manual

13100 CLOSING CONFERENCE

Before proposing any audit adjustments, discuss the audit results with the taxpayer or representative. If you and the taxpayer disagree, you can discuss the basis for positions and decide if you need more information. Give taxpayers or representatives the opportunity to submit all facts in support of their position. You must evaluate any new information before making a final determination. Tell the taxpayer or representative about all possible adjustments before you submit the final adjustment schedules for review or release of the Notice of Proposed Assessment.

You should discuss the audit with the taxpayer or representative to make sure it has enough information for audit review staff to evaluate. The review staff may return cases to you if you did not get or make available certain information during the audit. See GTAM 16200, *Protests*, for additional information.

Write a summary of the closing discussion and mail it to the taxpayer and/or representative, seeking agreement to all of the facts. You can use the position letter or Audit Issue Presentation Sheet format. See GTAM 9500, *Position Letter/Audit Issue Presentation (Explanation of Adjustments)*, for additional information.

The position letter, or Audit Issue Presentation Sheet, explains the adjustments and gives the taxpayer/representative an opportunity to agree or disagree with the proposed adjustments.

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CALIFORNIA FRANCHISE TAX BOARD

Internal Procedures Manual

General Tax Audit Manual

13200 CLOSING STEPS

GTAM 13210	Finalize the Workpaper File
GTAM 13220	Finalize the Narrative Report
GTAM 13221	Exhibits
GTAM 13230	Complete the Audit Report - Form FTB 6430
GTAM 13240	Complete Adjustment Forms (Notice of Proposed Assessment or Overassessment)
GTAM 13240.1	PIT Notice of Proposed Assessment
GTAM 13240.2	Corporation Notice of Proposed Assessment
GTAM 13240.3	Jeopardy Assessments
GTAM 13240.4	Notice of Proposed Assessment/Claim Denial on the Same Tax Year
GTAM 13240.5	Mirror Image NPA
GTAM 13241	Rush Notices of Proposed Assessment
GTAM 13242	NPA Circle File
GTAM 13243	Notices of Proposed Assessment - Information Copies to the IRS
GTAM 13244	NPACA - Notice of Proposed Adjustment Carry Over
GTAM 13245	Over Assessments

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CALIFORNIA FRANCHISE TAX BOARD

Internal Procedures Manual

General Tax Audit Manual

13210 Finalize the Workpaper File

When finalizing the case, review each of the workpaper folders to make sure you have properly recorded all information. Discard items such as Sticky Note reminders. Do not discard any item that may help the review of the case. See GTAM 7100, *Workpapers: The Need for a Complete Workpaper File*, for more information.

Complete and cross-reference all schedules, workpapers, etc. See GTAM 7600, *Cross - Referencing*, for more information.

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CALIFORNIA FRANCHISE TAX BOARD

Internal Procedures Manual General Tax Audit Manual

13220 Finalize the Narrative Report

The Narrative Report summarizes audit findings and the resulting tax effect. It should focus on the final audit determination, and should point readers to the proper workpapers for further information and analysis. You must write a narrative for all change cases. GTA uses two types of narratives:

- Primary Narrative
- Flow-Through Narrative

Primary Narrative

The Primary Entity is the audit's focus. This entity's audit resulted in an adjustment, either at the entity level or at the flow-through level.

PASS users must write a narrative report when there is an adjustment, regardless of whether the case is subject to review. Non-PASS users must prepare this report when a case is subject to secondary review.

The Primary Narrative should provide:

- Clear audit recommendations.
- A summary of proposed adjustments and their tax effect.
- Other information that helps overall understanding.

Although only a summary discussion is required for the narrative, use your judgment to determine how much detail to use. In some instances, you may need a detailed explanation to clearly convey the final determination.

The narrative report should *cross-reference* the workpapers! Provide a cross-reference to the taxpayer's agreement or disagreement. If you and the taxpayer disagree about the facts at the audit level, you should explain this in the narrative.

While gathering facts is important, you should also come to an agreement with the taxpayer/representative about the facts presented. *Reaching an agreement on the facts is mandatory in all cases*, even if the taxpayer does not agree with the way you applied the law, or has not provided information.

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CALIFORNIA FRANCHISE TAX BOARD

Internal Procedures Manual General Tax Audit Manual

The narrative report does not replace effective workpapers. You must still keep clear and concise workpapers addressing the facts, law, analysis, and conclusion of all issues.

Flow-Through Narratives

A "flow-through" entity is an entity that we adjust because of a primary level audit. Each entity with an adjustment must have a flow-through narrative. *The flow-through narrative should refer to the primary level audit, as well as adjustments specific to the entity, such as Alternative Minimum Tax, Passive Activity Losses, Itemized Deductions Limitations, etc.*

The Flow-Through Narrative should:

- Refer to the primary entity and the location of the complete audit file;
- Summarize proposed adjustments specific to the flow-through entity and their effects; and
- State other information that helps overall understanding.

As with the Primary Narrative, we require only a summary discussion. However, you may need detail to explain an adjustment. This narrative does not replace effective workpapers or the schedules that we require at each entity level. See GTAM 7400, *Creating Workpapers for Multiple Year or Multiple Entity Audits*, for a complete discussion of information required in the shareholder and partner case units.

While gathering facts is important, you must also come to an agreement with the taxpayer/representative on the facts presented. *Reaching an agreement on the facts is mandatory in all cases, even if the taxpayer does not agree with the way you applied the law, or has not provided information.*

PRIMARY NARRATIVE REPORT

Taxpayer:	
Taxpayer ID:	Created By:
Taxable Year(s):	Last Modified Date:

Taxpayer's Representatives [optional]

Complete this field when you need to highlight information such as a change in representation during the audit, an expired Power of Attorney, etc.

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CALIFORNIA FRANCHISE TAX BOARD

Internal Procedures Manual

General Tax Audit Manual

List of related entities, partners, or shareholders

List the entity names and identification numbers (SSN, CCN, FEIN, etc.) that are related and/or impacted by this examination. If you have created a diagram of the relationships instead of a list, provide a cross-reference.

Statute of Limitations

Enter the controlling Statute of Limitations.

Comments [optional]

Type any material information not involving an audited issue; for example, an unaudited material issue, items requested that the taxpayer did not provide, etc.

Exhibits [optional]

Cross reference to critical documents supporting the audit position.

Total Tax Effect

Complete the box with the requested information.

Primary Entity

Taxable Year	Issues	Income Adj.	Tax Effect	Folder-Doc #
Total		\$	\$	

Cumulative Flow-Through Entities (Partners, Shareholders)

Taxable Year	Issues	Income Adj.	Tax Effect	Folder-Doc #

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CALIFORNIA FRANCHISE TAX BOARD

Internal Procedures Manual

General Tax Audit Manual

Total		\$	\$	

Audit Adjustments

- Issue
- Facts
- Law
- Analysis
- Conclusion

Taxpayer Position

Rebuttal to taxpayer position

You must summarize all issues adjusted, regardless of any current year tax effect. The summary should address:

- The issue audited.
- The reason for the adjustment.
- Any pertinent documentation.
- The net tax adjustment.
- The location of the complete discussion of this issue.
- Taxpayer Position (including cross-reference).
- Rebuttal to taxpayer position.

Unadjusted Issues

Required if audited, but brief.

Federal Audit Adjustments

Required if relevant.

FLOW-THROUGH NARRATIVE REPORT

Taxpayer:	
Taxpayer ID:	Created By:
Taxable Year(s):	Last Modified Date:

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CALIFORNIA FRANCHISE TAX BOARD

Internal Procedures Manual

General Tax Audit Manual

Taxpayer's Representatives [optional]

Complete this field when you need to highlight information such as a change in representation during the audit, an expired Power of Attorney, etc.

Primary Narrative located in case unit

Name -

Taxable Year -

Identify the adjusted entity's name and entity number. Also, include the tax year in which the complete audit file may be found.

Statute of Limitations

Enter the controlling Statute of Limitations.

Comments [optional]

Provide any material information about the audit, but not involving an audited issue. For example: an unaudited material issue, items requested that that taxpayer did not provide, etc.

Exhibits [optional]

Cross reference to critical documents supporting the audit position.

Total Tax Effect

Taxable Year	Issues	Income Adj.	Tax Effect	Folder-Doc #
Total		\$	\$	

Audit Adjustments at Entity Level

The information provided in the Franchise Tax Board's internal procedure manuals does not reflect changes in law, regulations, notices, decisions, or administrative procedures that may have been adopted since the manual was last updated

CALIFORNIA FRANCHISE TAX BOARD

Internal Procedures Manual
General Tax Audit Manual

Explain briefly all primary entity level adjustments, if needed, with appropriate cross-references to the audited workpapers.

Also, summarize issues encountered at the owner-level, such as Passive Activity Losses or Net Operating Loss. The summary should address:

- The issue adjusted;
- The reason for the adjustment;
- Any pertinent documentation, including schedules;
- The net tax adjustment;
- The location of the complete discussion of this issue;
- Taxpayer Position (including cross-reference). Required for owner-level issues and if different from audited entity position.
- Rebuttal to taxpayer position. Required for owner-level issues and if different from audited-entity position.

Unadjusted Issues

Required if audited, but brief.

Federal Audit Adjustments

Required if relevant.

Reviewed: April 2003

CALIFORNIA FRANCHISE TAX BOARD

Internal Procedures Manual
General Tax Audit Manual

13221 Exhibits

Discuss and refer to exhibits in the Narrative Report. Refer to the source of the exhibits and the applicable audit issue sections. Include closing letters to the representative, the representative's position letters, and subsequent letters of rebuttal as exhibits.

Reviewed: April 2003

CALIFORNIA FRANCHISE TAX BOARD

Internal Procedures Manual
General Tax Audit Manual

13230 Complete the Audit Report - Form FTB 6430

Complete the Audit Report, Form FTB 6430 for all cases. Place the Audit Report on top of the physical file in order to route the case to Central Office for review and support functions. Complete the report as follows:

1. **Program Office** - Enter your program name: for example, "S-Corp. Program."
2. **PUC** - PASS automatically populates this field.
3. **Taxpayer/Entity Identification No./Address** - PASS automatically populates this section with the taxpayer's full name and identification number.
4. **EARLIEST STATUTE** - Enter the earliest date on which a statute will expire for making an assessment or allowing a refund for any of the returns under audit.
 - Related entity - If the earliest statute date is for a related entity, enter "RLTD" and the statute date.
 - Early Statute - If the statute will expire within six months after the file is submitted for review, circle the statute date in red on the hard copy of the Audit Report.
 - Bankruptcy cases - Enter "Bar Date" above the actual date.
 - Claims - Enter "Claim for Refund".
5. **Boxes:**
 - **Claims** - Check this box if the case includes a formal claim. A formal claim is any overassessment NOT generated by an audit.
 - **Non-Review** - Enter an "X" if the case does not require GTA Technical Review Section review.
 - **RAR Pending** - Check this box if:
 - You are returning a file to Central Office without being examined, after receiving a copy of an RAR
 - You are returning a file to Central Office when a federal audit is in progress.
 - You are examining a case for state only issues independent of the IRS audit. Indicate the status of any federal action in the Special Instructions section (section 10).
 - **Taxpayer's Copy** - Check this box if the file includes copies of the tax returns, and not the original returns filed with the FTB. Enter the years that the taxpayer's copies were used.
 - **Bankruptcy** - Check this only in cases where the period for filing

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CALIFORNIA FRANCHISE TAX BOARD

Internal Procedures Manual General Tax Audit Manual

bankruptcy claims has not expired. The final date for filing the claim should be entered in the Special Instructions section (Section 10). For additional information see GTAM 20100.

- **Protested** - Check this if the file includes a case where a prior NPA is under protest, and the auditor is recommending action to be taken on that protest. Files with a Docketed protest must be cleared through the Protest Section of the Legal Branch for approval. Do not check this box to indicate that the taxpayer will protest the proposed assessment.
- **Taxpayer's Position** - Choose the appropriate text in this drop-down box:
 - **Agreed**
 - **Disagreed**
 - **Withheld Decision**

6. **Taxable Year** - This section is generally used for PIT taxpayers. Enter the years examined, starting with the earliest year first.
7. **Statute Date** - Enter the SOL date or the extended SOL date for each year under audit. If the statute is extended by a state waiver, enter "SW" and the date. If there is no statute, enter the reason (Ex: fraud, no return filed). If a federal waiver extends the date, enter "FW" and the appropriate date. (The SOL expires the later of 4 years after the return was filed or six months after the expiration of the federal waiver). If the statute has expired on a referenced return, enter a dash.
8. **Federal Action** - Enter "RAR" if the report is available. Enter "Pend" if the IRS is performing or will perform an audit. Enter "N/A" if there is no IRS action. If federal action is pending on any other year not under examination, make a comment in the Special Instruction section (Section 10).

Def. Or O/A - Enter the deficiency amount of tax and penalty in rounded dollars. Interest is only included if payment has been received. This includes Electronic Fund Transfer (EFT) payments. Write overassessment amounts (including penalties) in brackets. If the claim is allowed in full, write "Claim Allowed" and enter the dollar amount (should match the Form FTB 6638 amount). Write "Claim Revised" for a partial denial, and enter the dollar amount allowed.

In some situations, use the following letters in place of dollar amounts:

- **N/C - No Change**. Do not enter zero (0). Zero is only entered for NPACAs (see GTAM 13244 for additional information). Indicate on the Audit Report what the no change is in reference to:
 - N/C letter

The information provided in the Franchise Tax Board's internal procedure manuals does not reflect changes in law, regulations, notices, decisions, or administrative procedures that may have been adopted since the manual was last updated

CALIFORNIA FRANCHISE TAX BOARD

Internal Procedures Manual General Tax Audit Manual

- N/C claim accepted as filed
 - N/C amended return accepted as filed.
 - **CLAIM DENIED** - Write "Claim Denied" for a claim denied in full. No dollar amount is necessary for routing purposes (the dollar amount will be entered in the Notice Window and will be reflected in the PASS reports).
 - **N/A** - Notice of Action. For when a protested NPA is revised, withdrawn, or affirmed.
 - **REF** - Referenced Return.
9. **Special Instructions** - List all related returns in this section, including name, TPID and tax years. This is important so that the files will be kept together through processing.

This section can also be used to call attention to any special item. If you are including special routing instructions, the "See Remarks" box should be checked (See the instructions for Section 8). If a Pass-through entity is adjusted, list all investors/shareholders being adjusted. The investors/shareholder's individual Audit Reports need only list the partnership. Do not list the other investors/shareholders.

This section should also list any additional enclosures and RARs.

10. **Auditor's Name - Telephone Number** - PASS will automatically populate the auditor's name and telephone number. You must enter the date submitted.
11. **Reviewer's Name - Telephone Number** - The first line reviewer will enter their name, date, and telephone number.

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CALIFORNIA FRANCHISE TAX BOARD

Internal Procedures Manual
General Tax Audit Manual

13240 Complete Adjustment Forms (Notice of Proposed Assessment or Overassessment)

Complete Notices of Proposed Assessments using BETS and PAWS. Some field offices complete their own PAWS notices but not their own BETS notices, while other offices do not issue either. Issue notices according to your office procedure. If there are hard copies of these forms, write/stamp the word, "PASS," in purple, on the upper right hand corner.

If Audit Business Support inputs the Notices of Proposed Assessment, you must complete a Notice of Proposed Assessment input worksheet for each tax year that you adjust.

Verify you have the correct taxpayer name and address. Check TI or BETS and make sure it is the same as is shown in PASS. If not, make the correction. Support staff can help you with this if you are not able to make the change.

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CALIFORNIA FRANCHISE TAX BOARD

Internal Procedures Manual General Tax Audit Manual

13240.1 PIT Notice of Proposed Assessment

You can find the PAWS Input Worksheet (Form FTB 6831B) on PASS. You must prepare the form within its adjusted case unit. Follow the instructions below when preparing the PAWS Input Worksheet:

1. **Number of Notices** - If the case involves multiple notices, indicate the total number of *PIT* notices, including Notices of Proposed Assessment, Jeopardy Assessments, Overassessments, and Notices of Overassessment.
2. **SOL Date** - Enter the earliest Statute of Limitations date for all notices (tax years) submitted with the case.
3. **DLN** - The return Document Locator Number.
4. **Taxpayer's Name** lists the taxpayer's full name as it appears on the notice. Include the spouse's name on joint returns. For more information, see GTAM 8131, *PIT Letters/Notices*.
5. **Tax Year** - This section is the four-character tax year.
6. **Account Number** - This is the primary taxpayer's Social Security Number or Taxpayer Identification Number.
7. **Revenue Code** lists the seven-digit revenue code. See GTAM 13500, *Revenue Codes / Workload Codes*, for more information.
8. **CC to Rep** lists the representative's address if sending a copy of the notice to the representative.
9. **Profile** - This section lists the 11-digit numeric profile code. The first six digits are the model number. If the returns are selected through the ASTRA selection process, the ASTRA Data Sheet and Return In-Lieu show the model number.

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- * * * * *
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- * * * * *
- * * * * *

If a non-standard write-in paragraph explains the primary audit adjustment, enter the appropriate paragraph number reserved as an ASTRA Indicator.

10. **CC to Federal** - If sending a copy of the Notice of Proposed Assessment to the IRS, put an "x" in this section.
11. **Enclosures** – You must provide all schedules to the

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CALIFORNIA FRANCHISE TAX BOARD

Internal Procedures Manual General Tax Audit Manual

taxpayer/representative before closing the audit. If you send enclosures with the Notice of Proposed Assessment, identify the schedules (e.g., Exhibit A and Exhibit B), and enter their addressees in the "*Special Instructions*" section. Stagger and staple the enclosures to the back of the PAWS worksheet.

12. **Payment Made** - If the taxpayer has made a payment for this notice, enter the amount and the date. Use NPA paragraph * * *. Be sure to include the applicable fill-in entries.
13. **Taxable Income** indicates the source and the dollar amount of starting taxable income. Enter the taxable income corresponding to the latest return processed (tax due paid by taxpayer or tax that we refunded). For example, if the taxpayer filed and paid the tax due on an amended return, check the "540X" line and enter the taxable income from the amended return. If the taxpayer filed a claim for refund that we have not refunded, enter the taxable income from the original return and check the 540 line. If we have issued a Notice of Proposed Assessment of Overassessment, enter the taxable income from the latest notice. If Taxable Income is a negative amount, be sure to add the negative amount to the itemized deductions. For example, negative income of (\$100.00) is added to itemized deductions of \$10.00 for a revised taxable income of (\$110.00).

Many adjustments impact Itemized Deductions and Exemption Credits. If a revised amount is reduced to zero, enter zero on the NPA created within PAWS and the PAWS input worksheet. Add a paragraph explaining any change.

14. **W/P Reference** - This section lists the workpaper source of the proposed adjustment.
15. **Adjustments** describes the adjustments as they appear on the notice. Each description is limited to 34 characters or spaces. Enter the dollar amount of the adjustment to the right of the description. If you propose more than five adjustments, combine the adjustments and enclose a schedule describing the adjustments and the dollar amounts. Check the "*Enclosures*" line when you have attached descriptive schedules.
16. **Revised Taxable Income** - This is the starting Taxable Income netted with the proposed adjustments.
17. **Filing Status** identifies which filing status to use on this notice. Check "TR" or "EST" for a trust or an estate return.
18. **Dep** lists the number of dependent, blind, or elderly exemptions allowed.
19. **Tax From** indicates the method of the tax computation used.

CALIFORNIA FRANCHISE TAX BOARD

Internal Procedures Manual General Tax Audit Manual

20. **Exemptions** - If this section is blank, we use the exemptions according to the return. If adjusted at audit, we enter the amount of the revised exemptions. If we revised the exemptions to zero, enter zero.
21. **Other Credits** gives the appropriate description and dollar amount for each allowed credit, either "*per return*" or "*as revised*." It does not show the difference between the claimed and the adjusted credit. Enter a zero if you have disallowed the credit. Each credit amount must have a credit description. Use a separate line for each credit and, if necessary, add a schedule. Check the "*Enclosures*" line if descriptive schedules are attached. If there are adjustments to a 540NR, enter only child/dependent or military credits on the "*other credit*" line. Use the "*special credits*" line of the nonresident/part year resident PAWS worksheet for all other credits.
22. **Other taxes** identifies the type of additional tax to be assessed, and the dollar amount.
23. **Total Tax** is the total *revised* tax liability.
24. **Previously Assessed** identifies the previously assessed tax on the taxable income amount entered on number 13 above.
25. **Total Additional Tax** is the total additional tax due to the proposed audit adjustments.
26. **Penalties** indicates the type of penalty to be assessed. Enter the percentage and amount. If assessing a penalty other than those listed, enter the penalty type and percentage. If you need to calculate the amount manually, enter the amount. If the taxpayer filed a delinquent return, check only the delinquent line. Enter the percentage and amount on the *additional tax* assessed. The system automatically computes the delinquent filing penalty on the return filed.
27. **Paragraphs** lists the Notice of Proposed Assessment paragraphs and is available for any necessary fill-in data. Put the paragraphs in the order in which they appear on the notice. For every item adjusted, you must list a separate paragraph. It is not enough to state, "*The revision is based on the schedules provided to the taxpayer's representative by the auditor.*" You must explain the adjustment on the Notice of Proposed Assessment. If you use free form paragraphs, write in the space provided. If you need more space, attach a separate sheet of paper with additional paragraphs. Indicate that the additional paragraphs are on an attached sheet of paper. Do not check the enclosure line. Enter paragraph 03985 or 03990 if you received payment.

If you use an NPA paragraph that has "fill-in-the-blank" spaces, input

CALIFORNIA FRANCHISE TAX BOARD

Internal Procedures Manual General Tax Audit Manual

the information needed in those blank spaces. Note: This does not apply to paragraph 02308, which automatically fills in the protest dates.

28. **Reviewer** - The reviewer initials and dates this section.
29. **Special Instructions** includes data such as: addressees for enclosures, if the notice is a zero tax Notice of Proposed Assessment, if the notice is a jeopardy assessment, or other special instructions. If the notice is a zero tax Notice of Proposed Assessment, enter, "Zero Tax NPA" in this section. For more information, see GTAM 13244, *NPACA - Notice of Proposed Adjustment Carry Over*.

NOTE: If the notice is a Jeopardy Assessment, you must follow the following special procedures:

- Include a detailed justification for the jeopardy assessment. Refer this justification to the Supervisor or Program Manager, along with the Notice of Proposed Assessment worksheet and audit file.
- Calculate penalties and interest.
- Include an explanatory paragraph. If the notice includes standard Notice of Proposed Assessment paragraphs, write out the paragraphs for processing by the Jeopardy Assessment Desk. The Jeopardy Assessment Desk does not have access to the standard Notice of Proposed Assessment paragraphs. However, the Jeopardy Assessment Desk does have a number of standard paragraphs. Enter the following in the paragraph section of the Notice of Proposed Assessment worksheet for the standard paragraphs:

ENTER

Illegal Activity
Minimum Tax
BOE

EDD

Prior Year

Unreported Income

STANDARD

JEOPARDY ASSESSMENT PARAGRAPH

For any assessment based upon illegal activities

For any assessment based upon minimum tax.

For any assessment based upon information provided by the Board of Equalization

For any assessment based upon information provided by the Employment Development Department.

For any assessment based upon a prior year adjustment

For any assessment based upon unreported income.

- The General Tax Audit Technical Resource Section review all jeopardy assessments, except those issued by Special Investigations.

The information provided in the Franchise Tax Board's internal procedure manuals does not reflect changes in law, regulations, notices, decisions, or administrative procedures that may have been adopted since the manual was last updated

CALIFORNIA FRANCHISE TAX BOARD

Internal Procedures Manual

General Tax Audit Manual

See GTAM 13240.3, *Jeopardy Assessments*, for more information.

NOTE: If you issue the Notice of Proposed Assessment because of an erroneous refund, enter, "*Erroneous Refund - Please Suppress Interest*," in the Special Instructions section. Use Paragraph 00978. If you can identify the reason for the erroneous refund, compose another paragraph explaining why we previously sent the refund to the taxpayer. See GTAM 10120, *Erroneous Refunds*, for additional information.

NOTE: ((* * *)) = Indicates confidential and/or proprietary information that has been deleted.

Reviewed: April 2003

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CALIFORNIA FRANCHISE TAX BOARD

Internal Procedures Manual
General Tax Audit Manual

13240.2 Corporation Notice of Proposed Assessment

You can find the *Corporation NPA Worksheet* (Form FTB 6830-BCT) on PASS. If you input a Notice of Proposed Assessment in the Business Entities Tax System (BETS), you do not need a Notice of Proposed Assessment Worksheet.

You may also refer to the instructions in the BETS NPA Quick Steps.

If you are not inputting the Notice of Proposed Assessment in BETS, complete *Corporation NPA Worksheet* - Form FTB 6830-BCT to issue the Notice manually. The *Corporation NPA Worksheet* is the worksheet Audit Business Support uses to prepare the *Notice of Proposed Assessment* (Form FTB 5830). The *Corporation NPA Worksheet* is also used to issue over-assessments. For all PASS cases where the NPA Worksheet is created, write/stamp the word, "PASS," in purple, on the upper right corner of the hard copy. Prepare the form within its adjusted case unit.

Carefully complete the NPA worksheet, because the typist prepares the finished notice showing the information exactly as it is on the worksheet.

The instructions below apply to the Corporation NPA Worksheet (Form FTB 6830-BCT):

1. Check the appropriate boxes.
 - **NOTICE UNRELATED & NOTICE RELATED** - Check the appropriate box when needed.
 - **DO NOT MAIL NPA** - Check this box if additional tax resulting from the audit is paid and a Notice of Proposed Assessment should *not* be mailed. If the additional tax is paid in full, and the taxpayer requests us not to, we do not need to mail a Notice of Proposed Assessment (use payment paragraph 50699 - 50702). Sometimes we prepare a *Corporation NPA Worksheet* - Form FTB 6830-BCT to clarify an adjustment for future reference. When it is not necessary to type a notice, write "Do Not Type," across the face of the hard copy worksheet.
 - **FT & CIT** - Check the appropriate box to indicate the chapter under which the notice is being issued, franchise tax (FT) or income tax (CIT).
 - **AUTHORIZED OFFSET** - Check if we should offset the notice with a related over-assessment.

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CALIFORNIA FRANCHISE TAX BOARD

Internal Procedures Manual General Tax Audit Manual

- **O/A & J/A** - If issuing an overassessment or jeopardy assessment, check the appropriate box.
 - **ASSUMER** - If there is an assumer, check the "ASSUMER" box.
2. If a jeopardy assessment is being issued, enter "4951" (i.e., Form FTB 4951) in the "**J/A NO.**" box. The Form FTB 4951 is the form that the Business Transfers Jeopardy Assessment Desk uses to mail the jeopardy assessment. The *Corporation NPA Worksheet* - Form The Business Transfers Jeopardy Assessment Desk uses Form FTB 6830-BCT to prepare the jeopardy assessment.
 3. **SOL** - This section shows when the statute of limitations expires. If the Statute expires within 90 days, use a *RUSH Tag* - Form FTB 7011. See GTAM 13760, *Rush Action Slip*, and see GTAM 13241, *Rush Notices of Proposed Assessment*, for more information.
 4. **NO. of Enc.** - This section indicates how many enclosures, such as schedules or letters, to send to the taxpayer. If there are multiple notices, note the number of enclosures only on the notices to which you want the enclosures attached.
 5. **NO. of Notices** - This section indicates the total number of overassessments, and Notices of Proposed Assessment or Overassessment to send to the taxpayer. If there are different types of notices, make a note like, "2 NPA's/1 OA", on each notice.
 6. **Assumer ID No.** - This section is for the assumer's identification number. You can find the assumer ID in BETS.
 7. **Corp. No.** - This section is for the corporation number. The corporation number does not include the prefix classifications, "D," "F", "NQIT," or "NQFT." When there is a corporate assumer and/or transferee, enter the corporation number of the dissolved taxpayer, and create a corporate assumer relationship in BETS under the dissolved taxpayer's account. See the BETS NPA Quick Steps for instruction to create a corporate assumer.
 8. **Claim No.** - If the Notice of Proposed Assessment revises a formal claim, enter the six-digit claim number from the return.
 9. **REVENUE CODE** -
 10. **ISSUE CODES** - The issue code uses the last four digits of the California Revenue and Taxation Code section under which we propose the adjustment. For example, if the issue is Charitable Contributions and Gifts (California Revenue and Taxation Code section 24357), the issue code is 4357. If there is more than one issue code, use the predominate code first. Enter no more than three codes.
 11. **Txp** - This section is for the taxpayer's name and address, as it appears on BETS or the return (whichever is correct). If the address on BETS is incorrect, update it. Do not abbreviate the name, unless the abbreviation is

The information provided in the Franchise Tax Board's internal procedure manuals does not reflect changes in law, regulations, notices, decisions, or administrative procedures that may have been adopted since the manual was last updated

CALIFORNIA FRANCHISE TAX BOARD

Internal Procedures Manual General Tax Audit Manual

part of the official name.

- If the taxpayer dissolves, withdraws, or becomes entirely inactive because of reorganization, and a transferee or successor in interest is specified, prepare the notice in the name of the taxpayer and/or transferee as successor in interest to the transferor corporation. Include the taxpayer's corporation number in step 7 above. This ensures that the Notice of Proposed Assessment posts to the taxpayer's account for correct computation of the interest liability.
 - If another corporation or individual assumes liability, add the assumer's name and address to this field as "Assumer" and/or "Transferee." Reflect adjustments on the dissolved corporation's account. For example: *White Corporation No. XXXXX1 (Taxpayer), and Green Corporation No. XXXXX2 - Assumer and/or Transferee or White Corporation No. XXXXX1 (Taxpayer), and John Doe, Richard Roe, and John Smith, Assumers and/or Transferees.*
 - If a transferee liability is established as a means to collect an assessment, enter the transferee corporation's name, number, and address, in addition to the taxpayer's. If there are many transferees, use only the principal transferees. Mail copies of the notices to each transferee as well as to the corporation. Comment on the hard copy of the *Corporation NPA Worksheet - Form FTB 6830-BCT*, indicating not to type the transferee address in the Notice of Proposed Assessment.
12. **CC to Rep.** - If sending a copy of the notice to the taxpayer's representative, enter the representative's name and address. If the representative's address is not in BETS, add it.
13. **Copy To Federal** - Check the box if sending a copy of the notice the Internal Revenue Service. Do not send copies for years that are barred by the statute of limitations for federal purposes.
14. **INC YR** - This section indicates the taxable year period of the notice (e.g., taxable year ending June 30, 1993 would be entered as 06/1993).
15. **DLN** - This is the Document Locator Number of the return (the ten-digit number below the bar code on the top of the return).
16. **Net Inc As Reported** - Check this box and enter the net income after state adjustments as reported. If the net income has been previously revised, enter the appropriate phrase, such as, "*per amended return*," or "*per Notice of Proposed Assessment dated...*" Enter any alternative starting income that is warranted by the nature of the circumstances or adjustments in "Adjustments."
17. **Adjustments** – Describe the adjustment items enough for the taxpayer to easily understand the proposed adjustment. If necessary, you can show

The information provided in the Franchise Tax Board's internal procedure manuals does not reflect changes in law, regulations, notices, decisions, or administrative procedures that may have been adopted since the manual was last updated

CALIFORNIA FRANCHISE TAX BOARD

Internal Procedures Manual

General Tax Audit Manual

computation of the adjustments on attached schedules. **NOTE:** If the description for the starting income in number 16 above is not appropriate enter the description here.

18. Check the appropriate boxes and enter the appropriate amount(s).
19. Enter the amount of tax computed in all cases. Check the appropriate box:
 - Tax at _____%
 - Total amount for Minimum Tax
 - Prepayment Tax
20. **Less Tax Credits** - Check the box for the appropriate credit. Enter the dollar amount for each allowed credit as "per return" or "as revised." Do not enter the difference between the claimed and adjusted credit. Enter a zero if you disallow a credit. If you propose a change to any credits, attach a supplemental schedule showing the revised computation. For credits other than the Manufacturer's Investment Credit, Los Angeles Revitalization Zone, or Research and Development credits, check the "Other" box and enter the name of the credit.
21. **Net Tax** - Enter the net tax amount if different from total tax.
22. **AMT and/or Other Taxes** - Enter the total Alternative Minimum Tax, and/or other tax. If other taxes apply, check the box and enter a description of the tax, such as, "Tax on built-in gains." Do not refer to law sections or regulations on this line. If you propose a change, attach a schedule showing the revised computation.
23. **Total Tax** - Enter the total revised tax amount.
24. **Previously Assessed** - Check the taxpayer's current account status on BETS for the previously assessed amount. BETS may reveal changes to the taxpayer's original self-assessed amount. Enter the total amount of tax previously assessed, including tax on preference income, Alternative Minimum Tax, and other taxes. You may find the previously assessed amount on the original return, amended return, or previous Notice of Proposed Assessment.
25. **Total Additional Tax or Over Assessment** - Check the box that applies and enter the total additional tax in the far right column. An over assessment will be entered in brackets < >.
26. **Penalty** - If assessing a penalty, enter the penalty description and percentage in the space provided. Use descriptive words, such as "Fraud" or "Accuracy Related" instead of the section of the law concerned. Generally, compute the penalty only on the additional tax. Exceptions are:
 - There should be a delinquent filing penalty, but the original return was assessed for tax only.
 - The Fraud penalty is assessed and there was a previous Notice of Proposed Assessment or amended return.

The information provided in the Franchise Tax Board's internal procedure manuals does not reflect changes in law, regulations, notices, decisions, or administrative procedures that may have been adopted since the manual was last updated

CALIFORNIA FRANCHISE TAX BOARD

Internal Procedures Manual General Tax Audit Manual

- The penalty for failure to furnish information applies only to part of the deficiency.
 - See GTAM 20500, *Penalties*, for more information.
27. **Total Additional Tax and Penalty** - Enter the amount of Total Additional Tax or Over Assessment. If there is an overpayment, enter the amount in brackets. When the taxpayer pays the additional tax during an audit, compute interest to the date of payment. Do not enter an interest figure on this form.
28. **PARAGRAPH NUMBER(S)** – Enter paragraph numbers, auditor-composed paragraphs, and short computations here. The Notice of Proposed Assessment paragraphs must describe the adjustment details. It is not enough to state "*The revision is based on the schedules provided to the taxpayer's representative by the auditor.*" You must explain the adjustment on the Notice of Proposed Assessment. Enter Notice of Proposed Assessment paragraphs of a general nature, which apply to the Notice of Proposed Assessment as a whole, last. Add special paragraphs for suspended corporations (for example, 54477), and when a payment is already made (for example, 50699 or 50700). Refer to prior notices, amended returns, etc. in the opening paragraphs. Closing paragraphs should refer to payments made and protest procedures.
29. **Preparer / Reviewer#1 / Reviewer#2** - Enter your name and date. Enter each reviewer's name and date. If the notice is a Jeopardy Assessment, you must follow the following special procedures:
- Include a detailed justification for the jeopardy assessment. Refer this justification to the Supervisor or Program Manager with the Notice of Proposed Assessment worksheet and audit file.
 - Calculate of penalties and interest.
 - Include an explanatory paragraph. If the notice uses standard Notice of Proposed Assessment paragraphs, the Jeopardy Assessment Desk must write out the paragraphs for processing. The Jeopardy Assessment Desk does not have access to the standard Notice of Proposed Assessment paragraphs. However, the Jeopardy Assessment Desk does have a number of standard paragraphs. Enter the following in the paragraph section of the Notice of Proposed Assessment worksheet for the standard Jeopardy Assessment Desk paragraphs:

ENTER

Illegal Activity

Minimum Tax

STANDARD JA PARAGRAPH

For any assessment based upon illegal activities.

For any assessment based upon minimum tax.

The information provided in the Franchise Tax Board's internal procedure manuals does not reflect changes in law, regulations, notices, decisions, or administrative procedures that may have been adopted since the manual was last updated

CALIFORNIA FRANCHISE TAX BOARD

Internal Procedures Manual

General Tax Audit Manual

<u>BOE</u>	For any assessment based upon information provided by the Board of Equalization.
<u>EDD</u>	For any assessment based upon information provided by the Employment Development Department
<u>Prior Year</u>	For any assessment based upon a prior year adjustment.
<u>Unreported Income</u>	For any assessment based upon unreported income.

The General Tax Audit Technical Resource Section reviews all jeopardy assessments, except those issued by Special Investigations.

See GTAM 13240.3, *Jeopardy Assessments*, for additional information.

Reviewed: November 2004

The information provided in the Franchise Tax Board's internal procedure manuals does not reflect changes in law, regulations, notices, decisions, or administrative procedures that may have been adopted since the manual was last updated

CALIFORNIA FRANCHISE TAX BOARD

Internal Procedures Manual General Tax Audit Manual

13240.3 Jeopardy Assessments

We issue a jeopardy assessment when the Audit Program Manager determines that tax collection will be jeopardized by delay. Our Chief Counsel must approve all jeopardy assessments in writing. A jeopardy assessment is immediately due and payable. Collection proceedings may begin at once. See GPM 1420 - 1425, for more information.

Audit Staff

- Designate the case as a priority on PASS.
- Complete the Corporation NPA Worksheet - Form FTB 6830-BCT, and/or the PAWS Input Worksheet - Form FTB 6831-B. See the instructions at GTAM 13240.2, Corporation Notice of Proposed Assessment, and GTAM 13240.1, PIT Notice of Proposed Assessment.
- Attach a detailed justification for the jeopardy.
- Have the supervisor and program manager review/approve the Notice of Proposed Assessment worksheets.
- When approved, email the following information to the appropriate designee in Legal for approval:
 - User Requesting Assessment
 - Supervisor Approval
 - Taxpayer (Entity) Name
 - Account Number/TPID Number
 - Tax Years to be assessed
 - Basis of Assessment
 - Tax by Year
 - Total liability, includes tax, penalty, and interest
 - Reason case is a Jeopardy
 - Supporting documentation must detail that the taxpayer meets one of the criteria as listed in IRS Regs 1.6851-1. A statement like “the taxpayer appears to be leaving the state” is not enough. Documentation must support the assertion that Jeopardy exists.
 - Prepare a Rush Action Slip - Form FTB 7011. Attach the Rush Action Slip to the top of the physical file. See GTAM 13760, Rush Action Slip, for more information.

The information provided in the Franchise Tax Board's internal procedure manuals does not reflect changes in law, regulations, notices, decisions, or administrative procedures that may have been adopted since the manual was last updated

CALIFORNIA FRANCHISE TAX BOARD

Internal Procedures Manual General Tax Audit Manual

- Tell the GTA Technical Resource Section about the jeopardy assessment. All jeopardy assessments go through the GTA Technical Resource Section. DO NOT ROUTE THE CASE TO AUDIT BUSINESS SUPPORT.
- Prepare a Sticky Note to help the GTA Technical Resource staff identify the case as a jeopardy assessment (see GTAM 14510, Sticky Notes, for additional information).
- Route the audit file to the GTA Technical Resource Section. Route the physical file to:

GTA Technical Resource Section
Mailstop D-756
ATTN: JA Review

- Transfer the electronic file to the GTA Technical Resource group worklist. For more information, see GTAM 13280, Transfer Case/Case Unit to Next Level.

GTA Review

- Review the audit file.
- FAX the approved Corporation NPA Worksheet - Form FTB 6830-BCT, and/or the PAWS Input Worksheet - Form FTB 6831-B, the document with the legal department's approval, and the justification for the jeopardy assessment to the Business Transfers Jeopardy Assessment Desk.
- **Complete and route the case according to standard procedures.**

California Revenue and Taxation Code section 19084 states that within five days of mailing the jeopardy assessment, we mail a written statement to the taxpayer with the information we used to issue the jeopardy assessment. Within 30 days of mailing this written statement, the taxpayer may protest the jeopardy assessment. We have the burden to prove that jeopardy exists.

The filing of the protest will not suspend collections. If a protest is not filed within the 30-day period, the assessment becomes final.

The information provided in the Franchise Tax Board's internal procedure manuals does not reflect changes in law, regulations, notices, decisions, or administrative procedures that may have been adopted since the manual was last updated

CALIFORNIA FRANCHISE TAX BOARD

Internal Procedures Manual
General Tax Audit Manual

If a protest is filed, we have 90 days to make a determination, unless the taxpayer requests additional time in writing. We tell the taxpayer the final determination by issuing a Notice of Action. If we make no determination within the 90 days, the protest is deemed affirmed.

The taxpayer may appeal to the State Board of Equalization within 60 days of our determination. After this period closes, the determination is final. Filing an appeal will not suspend collections.

The State Board of Equalization has 60 days from the filing of the appeal to make a determination. If they make no determination within the prescribed time, the appeal is deemed denied.

Within 60 days of the Board of Equalization's determination, the taxpayer or we may bring civil action against the other in superior court. If no action is taken within 60 days, the Board of Equalization's determination is final. The filing of a civil action will not suspend collections.

The court has 60 days after proper service is made to make a determination. The determination made by superior court is final and conclusive, and not reviewed by any other court.

Reviewed: April 2003

CALIFORNIA FRANCHISE TAX BOARD

Internal Procedures Manual
General Tax Audit Manual

13240.4 Notice of Proposed Assessment/Claim Denial on the Same Tax Year

We must take specific steps to ensure that taxpayers get protest/appeal rights, and that we place no undue burdens on taxpayers because of an Notice of Proposed Assessment / Claim Denial on the same tax year.

For example, we examine the 2001, 2002, 2003 returns, and a 2002 claim for refund return of an S-Corporation. The 2002 claim for refund increases the claimed Tax Credit from \$10,000 to \$40,000. The S-Corporation's Tax Credit is disallowed because the corporation does not qualify for the credit. Because the corporation is an S-Corporation, the 100% shareholder has a flow-through Tax Credit for the same tax years.

The shareholder originally claims a \$10,000 Tax Credit for tax year 2002, and later files a claim for refund to report an additional \$30,000 in Tax Credit. Shortly thereafter, we examine the S-Corporation returns.



Auditor – Personal Income Tax Cases

- If a credit balance exists on TI for the amended return amount, complete a Technical Support Request - Form FTB 7053 to request an account balance change. TI should reflect the original return tax liability before creating the Notice of Proposed Assessment. Attach the Technical Support Request to the face of the return, and route the file to Audit Business Support.
- Create the Notice of Proposed Assessment. See GTAM 13240, Complete Adjustment Forms (NPA, OA), for additional information.
- Create a separate letter to include with the Notice. This letter must explain that we issue the Claim Denial letter after the Notice is resolved.
- Draft the Claim Denial letter. Do not release the Claim Denial Letter. It should remain in the Draft Correspondence Folder.
- Create a Sticky Note for the file requesting Audit Business Support to "Keep the claim open until we take final action on the Notice. Please mail the Claim Denial letter once the Notice goes final. If the Notice is protested, do not mail Claim Denial letter. Instead, please route case

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CALIFORNIA FRANCHISE TAX BOARD

Internal Procedures Manual

General Tax Audit Manual

to the Protest Unit." They will mail the Claim Denial letter once the Notice is finalized.

- Route the completed case to the GTA Technical Resource Section.

Audit Business Support - PIT Cases

- Mail the Claim Denial letter once the Notice is final. Enclose Form FTB 1084 (Appeals Procedures - PIT).
- If the Notice is protested, route the case to the Protest Unit. Create a new Sticky Note requesting the Protest Unit to *"Keep the claim open until we take final action on the Protest. Please mail the Claim Denial letter once the Protest is resolved."*

Auditor - B&C Cases

- Prepare the Notice of Proposed Assessment, but *do not* deny the claim. We send the Claim Denial letter once the Notice is finalized. See GTAM 13240, *Complete Adjustment Forms (NPA, OA)*, for more information.
- Include a paragraph on the Notice stating that the claim is considered denied at the time that the Notice goes final. Enclose Form FTB 1087 (Appeals Procedures - corp.).

Reviewer (supervisor/TRS) - B&C Cases

- "Dog-ear" the Form FTB 6638 and write, *"Deny claim after NPA goes final."* See GTAM 16321, *Closing Forms - Corp. Claims*, for additional information.
- Place Form FTB 6638 behind the Batch Control Sheet (FTB 6148) or NPA Worksheet (FTB 6830-BCT).
- Forward the case to the GTA Technical Support.

Reviewed: April 2003

CALIFORNIA FRANCHISE TAX BOARD

Internal Procedures Manual
General Tax Audit Manual

13240.5 Mirror Image NPA

A "Mirror Image" Notice of Proposed Assessment is one that we send to spouses (or ex-spouses) who reside at different addresses.



- When spouses have different addresses, PAWS indicates it is creating a "Mirror Image" Notice of Proposed Assessment (e.g., *SPOUSE ADDRESS IS DIFFERENT FROM PRIMARY ADDRESS*). Check TI to see if you need to update the spouse's address. If so, enter paragraph 00027 and write the sequence number and "MIRROR IMAGE" on the PAWS batch control worksheet in red.
- **If completing a PAWS worksheet, write, "Mirror Image NPA needed" at the bottom of the worksheet with the other spouse's current address.**

Reviewed: April 2003

CALIFORNIA FRANCHISE TAX BOARD

Internal Procedures Manual
General Tax Audit Manual

13240.6 Limited Liability Fee NPA

The NPA worksheet for assessing the LLC fee is prepared in the same manner as for assessing tax with the following differences:

1. Write on top of the BCT NPA Worksheet Audit (Form FTB 6830-BCT) "LLC Fee Adjustment".
2. Cross out "Total Tax and Penalty" and replace with "LLC Fee".
3. Cross out "\$0.00" and replace with fee amount. For example, "\$6,251.00".
4. Add an NPA paragraph stating what caused the fee adjustment. For example, "The adjustment to XYZ Partnership had an impact on your Limited Liability Company fee".

CALIFORNIA FRANCHISE TAX BOARD

Internal Procedures Manual
General Tax Audit Manual

13241 Rush Notices of Proposed Assessment

We must issue rush Notices of Proposed Assessment immediately. A rush Notice commonly occurs when the statute of limitations will soon expire. For cases with a short statute of limitations, see GTAM 13750, *Routing Short Statute of Limitations Cases*.

Another example is a jeopardy assessment. We treat all jeopardy assessments as rush Notices of Proposed Assessment. However, unlike regular rush Notices, after the audit supervisor/program manager reviews and approves it, route the audit file directly to the GTA Technical Resource Section. *Do not* route jeopardy assessments through Audit Business Support. See GTAM 13240.3, *Jeopardy Assessments*, for more information.

Reviewed: April 2003

CALIFORNIA FRANCHISE TAX BOARD

Internal Procedures Manual
General Tax Audit Manual

13242 NPA Circle File

Create an NPA Circle File is created when we issue a Notice of Proposed Assessment on a tax year in which we have no return. The circle file serves as the placeholder for the physical audit file. The Document Locator Number (DLN) on the notice is OOOOOOOO. You should create a circle file even if the taxpayer provides a copy of the return.

To create a circle file, treat the NPA Worksheet (Forms FTB 6830 and/or FTB 6831) as a replacement tax return. Write "*Circle File*," in red, across the top of the NPA Worksheet and attach it to the top of the physical file. If you get a waiver for a tax year with an NPA Circle File, attach the waiver to the top of the NPA Worksheet that now serves as the replacement tax return. Complete the rest of the file according to standard procedures.

Reviewed: April 2003

CALIFORNIA FRANCHISE TAX BOARD

Internal Procedures Manual
General Tax Audit Manual

13243 Notices of Proposed Assessment - Information Copies to the IRS

In order to send an information copy of a Notice of Proposed Assessment to the IRS, check the “Copy to *Federal*” or “CC TO *FEDERAL*,” on the NPA worksheets (Forms FTB 6830 and/or FTB 6831). Remember the federal statute of limitations.

Reviewed: April 2003

CALIFORNIA FRANCHISE TAX BOARD

Internal Procedures Manual
General Tax Audit Manual

13244 NPACA - Notice of Proposed Adjustment Carry Over

CR&TC section 19043.5 authorizes us to issue a Notice of Proposed Adjusted Carryover Amount (NPACA) when an examination results in a reduction of a taxpayer's reported carryover amount. The taxpayer has protest and appeal rights even though the exam does not result in any additional tax. For purposes of the California Administration-Franchise and Income Tax section of the Revenue and Taxation code, we treat Carryover Adjustments like Notices of Proposed Assessment.

Although a taxpayer cannot appeal the State Board of Equalization decision because there is no deficiency to pay to enter Superior Court, the benefit of appealing to the Board is receiving a binding and conclusive determination regarding the carryover item. Their decision binds both the taxpayer and us to the amount of carryover. There are a few limited exceptions. If the taxpayer does not follow the Board decision in subsequent years, we can issue a math error assessment to correct the carryover amount instead of a Notice of Proposed Assessment.

Communicate clearly the process and consequences of issuing Carryover Adjustments to taxpayers and their representatives, since these notices are unique to California and there is no federal counterpart.

Issuing the Notice

When: Guiding principle is to use the same procedures for the NPACA and the Notice of Proposed Assessment.

- Issue an NPACA when an audit results in no additional tax, but reduces a carryover item. For Revenue Agent Report workloads, we issue NPACAs when the federal audit results in no additional California tax but reduces a carryover item, as modified for California law.
- When an exam results in a Notice of Proposed Assessment, we do not need a separate notice to reduce a carryover item for the same tax year. We include the carryover item in the Notice of Proposed Assessment.
- When allowing a claim for refund in full, we issue a NPACA for any reduction in carryover items for the same tax year.
- When we deny a claim for refund in whole or in part, we issue an NPACA for any reduction in carryover items not related to the reason for the claim.

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CALIFORNIA FRANCHISE TAX BOARD

Internal Procedures Manual General Tax Audit Manual

If a taxpayer files a claim for refund because of a credit or loss issue, the denial letter gives appeal rights.

How:

The NPACA notice provides:

- The amount of the carryover reduction.
- The revised carryover amount.
- Protest procedures modified slightly to remove discussions of additional tax, interest, penalties, and payments.
- The protest deadline date.

A template of the NPACA is on PASS (1542 NPACA Letter, under the Draft Correspondence folder). You only need to add the explanation for the carryover item reduction and the protest deadline date. The template automatically fills in your name and number in the signature block. If you are not using PASS, the language in the PASS template is available through your system.

Closing the Case File

- Place a copy of the NPACA on top of the closed case file to identify the case as an NPACA case. If case is subject to Technical Resource Section review, complete route slip FTB 6430 (see GTAM 13220).
- The person mailing the notice places a copy of the mailed notice on top of the case file before sending the case to the Notice of Proposed Assessment retention wall. This makes it easier for the staff handling cases on the retention wall to see the mail date.
- Add comments to the taxpayer's mainframe account (BETS or TI) noting:
 - That we issued an NPACA and mail date.
 - The revised carryover amount for the affected tax year.
 - Your name and 10-digit phone number.The information in these comments helps employees without access to PASS provide service to taxpayers, as well as serving a historical purpose on the mainframe. The responsibility for adding the comments starts with auditors. If someone else mails the notice, then responsibility transfers to that person. Each unit may adjust this step to suit their normal processes.

The information provided in the Franchise Tax Board's internal procedure manuals does not reflect changes in law, regulations, notices, decisions, or administrative procedures that may have been adopted since the manual was last updated

CALIFORNIA FRANCHISE TAX BOARD

Internal Procedures Manual General Tax Audit Manual

- LIM date the case file, following the procedures in GTAM section 13800. The length of time depends on the facts and circumstances of each case.
- Flag subsequent years for follow up using PASS. Which years, and how many subsequent years, depends on the facts and circumstances of each case.
- Follow normal procedures for routing deficiency cases to Central Office: Audit Business Support (GTAM 13710, GTAM 13720, & GTAM 13740)
- If case results in issuing only an NPACA, transfer the PASS file to the following work list, even if case isn't subject to review: *Audit Support/GTA Review*. Owners of the work list transfer the PASS file to the appropriate retention work list when they receive the physical file.
- If a case results in issuing both NPACAs and Notices of Proposed Assessment, treat the case file no differently from a deficiency case. Follow usual review and routing procedures.

Protesting the Notice

- Protest unit closes case by issuing an NPACA Notice of Action, a letter template also on PASS (1542a). The template offers a drop down menu to choose the final action: affirmation, revision, or withdrawal. PASS paragraphs are available to explain the notice. Hearing officers would add explanation of any revisions.
- If you do not use PASS, the language on the PASS NOTICE OF ACTION template is available for your system, without references to hearing officers.

Reviewed: April 2003

CALIFORNIA FRANCHISE TAX BOARD

Internal Procedures Manual
General Tax Audit Manual

13245 Over Assessments

PIT Over Assessments

Use the *Over-Assessment Worksheet* - Form FTB 6846 for all Personal Income Tax over assessments. Situations that require using this form are:

- The proposed audit adjustments result in over assessments.
- A claim for refund is increased.
- A claim for refund is partially denied, and we have not previously taken action on the claim.
- A claim for refund is allowed in full, and we have not previously taken action on the claim.
- An amended return (540X) is filed with additional tax due and processed/posted to the TI System. The amended return tax is decreased after examination.

For part-year/non residents, complete Forms FTB 6840A (Schedule I) and FTB 6840 (Schedule II) before starting the *Over-Assessment Worksheet*. Attach the Forms FTB 6840A and 6840 to the FTB 6846.

For additional claim/amended return information, see GTAM 16300, *Claims*.

The following instructions apply to the *Over-Assessment Worksheet* - Form FTB 6846:

1. **Taxpayer** - This section is for the taxpayer's name. If the taxpayer's current address differs from that on the return, enter the current address below the taxpayer's name.
2. **TP SSN** - This section is for the primary taxpayer's social security number.
3. **TPID** - This section is for the primary taxpayer's taxpayer identification account number, if used.
4. **Tax Year** - This section is for the tax year on which we issue the refund.
5. **Amt. Claimed** - This section shows any amount of refund claimed by the taxpayer.
6. **SP SSN** - This section is for the spousal taxpayer's social security number.
7. **CC. Representative** - This section shows the name and address of the taxpayer's representative, if sending copy of the notice to the representative.
8. **SPID** - This section is for the spousal taxpayer's taxpayer identification

The information provided in the Franchise Tax Board's internal procedure manuals does not reflect changes in law, regulations, notices, decisions, or administrative procedures that may have been adopted since the manual was last updated

CALIFORNIA FRANCHISE TAX BOARD

Internal Procedures Manual General Tax Audit Manual

- account number, if used.
9. **Revenue Code** - This section shows the seven-digit numeric activity code. See GTAM 13500, *Revenue Codes / Workload Codes*, for more information.
 10. **SOL** - This section shows the statute of limitations date. Remember that the statute of limitations for refunds often differs from the statute of limitations for deficiencies. See GTAM 10000, *Statute of Limitations*, for additional information.
 11. **ENCLOSURE(S)** – Check the "enclosure" box if enclosing additional schedules and/or explanations with the over assessment notice.
 12. **Std. Para(s)** - This section lists the most commonly used standard paragraphs. Check the appropriate box. If none of the paragraphs is appropriate, enclose an explanation (see #11 above).
 13. **AGI / TI** – Check the AGI (Adjusted Gross Income) or TI (Taxable Income).
 14. **per form** - This section shows the AGI or TI, based upon the box checked in # 13 above, from the latest return processed/posted to the TI System. For 540NR returns, enter either:
 - Line 1 of Form FTB 6840A (Sch. I), and
 - Line 1 of Form FTB 6840 (Sch. II). OR
 - PASS California Non-resident or part year resident net tax liability worksheet", page 1 & 2. (Found in Schedules folder)Enclose the schedules with the over assessment notice.
 15. **Adjustments** - This section lists the individual proposed adjustments. For 540NR returns, write, "*Adjustments per attached schedule.*" Be sure to enclose the Schedules.
 16. **Paragraph(s)** - This section lists the standard paragraphs used to explain the adjustments, if none of the most commonly used standard paragraphs is appropriate (see #12 above).
 17. **Revised AGI / TI** – Check the AGI or TI box, depending upon the box checked in #13 above, and the revised amount entered. For 540NR returns, check the TI box and enter the revised total taxable income from Form FTB 6840B (Sch I).
 18. **Total Tax** - This section shows the amount of tax on the revised AGI or TI. This is the amount of tax before any exemptions or credits. Check the applicable source used to compute the total tax. For 540NR returns, enter the tax (before exemptions) from the Form FTB 6840 (Sch II).
 19. **Credits for exemption** - This is the total dollar amount of the exemption credits.
 20. **Add: Tax** - This section shows any additional tax from Schedule G-1 or

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CALIFORNIA FRANCHISE TAX BOARD

Internal Procedures Manual General Tax Audit Manual

Form FTB 5870A.

21. **Other Credits** - This section lists all credits that apply, besides the exemption credits. If a credit is adjusted, enter the revised credit amount, not the difference.
22. **Other Taxes** - This section shows the revised Preference Tax, Alternative Minimum Tax, tax on early withdrawal from an IRA, or other taxes.
23. **Net tax liability** - If no penalties are assessed this is the final line that you complete.
24. **Penalty** - The type of penalty, the percentage, and the amount.
25. **Preparer** - Your unit (PUC), initials, phone number, and the preparation date.
26. **Reviewer** - The reviewer's unit (PUC), initials, phone number, and the review date.

NOTE: If a PASS case, write/stamp the word, "PASS," in purple on the upper right hand corner of the form.

Corporation Over Assessments

Use the *Corporation NPA Worksheet* - Form FTB 6830-BCT for all corporation over-assessments, unless denying or allowing in full a corporation claim for refund. If this is the case, use the *Auditor's Recommendation Formal Claims* - Form FTB 6638. For more claim/amended return information, see GTAM 16300, *Claims*.

Situations using the *Corporation NPA Worksheet*, include:

- The proposed audit adjustments result in over assessments.
- A claim for refund is increased.
- A claim for refund is partially denied, and we have not previously taken action on the claim.
- An amended return is filed with additional tax due and processed/posted to the BETS System. The amended return tax is decreased after examination.

If the overassessment is larger than \$250,000 resulting from an overpayment of taxes, a cancellation of tax, or a combination of overpayments and cancellations, we must fill out FTB Form 6163 (Abatement/Refund Memo). These refunds require administrative review before being issued, and this form provides the information necessary for that review.

The information provided in the Franchise Tax Board's internal procedure manuals does not reflect changes in law, regulations, notices, decisions, or administrative procedures that may have been adopted since the manual was last updated

CALIFORNIA FRANCHISE TAX BOARD

Internal Procedures Manual
General Tax Audit Manual

Complete the form FTB 6163 in the following manner:

- TO: Enter "General Tax Audit Program Bureau"
- From: Enter appropriate GTA Program
- RE: Enter the taxpayer's name
- Corp No: Enter the taxpayer's California corporation number.
- INCOME YEAR: Enter each taxable year for which an abatement/refund is issued.
- ABATEMENT/OVERPAYMENT AMOUNT: Enter the amount of change in tax and penalty per income year. Enter the amount in parenthesis.
- BASIS: Explain why the amount is being refunded.
- STATUTE: Enter the earliest Statute of Limitations date. *You must complete this section.*

See the instructions at GTAM 13240.2, *Corporation Notice of Proposed Assessment (NPA)*, for the steps to prepare an *Over Assessment*.

Reviewed: April 2003

CALIFORNIA FRANCHISE TAX BOARD

Internal Procedures Manual
General Tax Audit Manual

13246 NO-CHANGE AUDITS

If the case is accepted as filed, issue the standard "*No-Change*" letter. We issue No-Change letters on all completed audit years that do not result in additional tax, an NPACA (See GTAM 13244), or an overassessment. Send No-Change letters directly to the taxpayer. Send a copy of the letter to the representative if requested. See GTAM 9600, *No-Change Letters*, for more information.

NOTE: If we receive a federal determination (Revenue Agent Report) *after* an FTB no-change audit, do not reopen the audit *unless* it meets the exceptions listed under the *Guidelines for Previously Audited Tax Years* (see GTAM 16400, *Guidelines for Previously Audited Tax Years*).

Reviewed: April 2003

13247 Electronically Filed Returns

If a return was filed electronically, print a copy of the return, and attach the audit file as if it were an original return.

CALIFORNIA FRANCHISE TAX BOARD

Internal Procedures Manual

General Tax Audit Manual

13250 COMPLETE NOTICE WINDOW

The Notice window displays a list of notices created for the case unit. The system allows you to log multiple determinations, such as the denial of a claim as well as a notice, on the same case unit. All notices are generated on external systems (BETS and TI). You should enter the available information on the Notice window. Audit Business Support updates this information. Consistently entering and updating the determination information helps to generate timely and accurate reports from PASS.

The Notice Window has two parts, the *Notice Detail* and the *Notice Issues*.

NOTE: You are responsible for entering the available information. The reviewer enters any changes. Audit Business Support updates this information. Even if you do not know the actual amount, you must reasonably estimate it.

NOTE: You must note, in purple, on the *Batch Control Worksheet* that the case is a PASS case. This helps the Audit Business Support units process the case.

Reviewed: April 2003

CALIFORNIA FRANCHISE TAX BOARD

Internal Procedures Manual
General Tax Audit Manual

13260 ASSEMBLE THE PHYSICAL CASE

Usually, we do not print a complete copy of the electronic file when the case is closed. All information is available online. The physical file should consist of the following:

NOTE: Attach the physical file to the tax return for the most recent audited year. If that year has amended returns, the physical file should be attached to the most recent amended return.

1. Complete the *Audit Report* - Form FTB 6430. Include your and your audit supervisor's telephone number. Print a copy of the Audit Report for the physical file. Note in the Report that there is an associated electronic/physical file. The Audit Report serves as a transmittal document to Central Office. Attach a copy of this form to the physical file. Write/stamp the word, "PASS," in purple, across the front of this form.
2. *PAWS/CLAWS Batch Control Worksheet* - Form FTB 6148. The *Batch Control Worksheet* template is in the Administration folder. The completion of this form by the field is *optional*. Write/stamp the word, "PASS" across the front of the hard copy of this form in purple. **NOTE:** All Central Office PASS cases, subject to review, must have the Statute date written and circled in red, on the notes section of the *Batch Control Worksheet*. Document the preparation of the *PAWS/CLAWS Batch Control Worksheet* - Form FTB 6148, in the Event Log.
3. The *PAWS NPA Worksheet* - Form FTB 6831, the *BETS NPA Worksheet* - Form FTB 6830-BCT, the *Accounting Instructions - Corp.* - Form FTB 6213A, the *Auditor's Recommendation Formal Claims* - Form FTB 6638, the *PIT Over-assessment Form* - Form FTB 6846. Write/stamp the word, "PASS," in purple, across the front of these forms
4. Received Correspondence Index.
5. Received Correspondence includes photocopies, exhibits, and other miscellaneous items.
6. Tax Return(s). Write/stamp the word, "PASS" in purple on the upper right hand corner of the returns. If this interferes with the Document Locator Number, write/stamp the word in the middle of the return.



Field Offices; assemble the physical file in this order:

The information provided in the Franchise Tax Board's internal procedure manuals does not reflect changes in law, regulations, notices, decisions, or administrative procedures that may have been adopted since the manual was last updated

CALIFORNIA FRANCHISE TAX BOARD

Internal Procedures Manual

General Tax Audit Manual

- *Audit Report* - Form FTB 6430. Write/stamp the word, "PASS," across the top of this form in purple.
- Rush tag if needed (see GTAM 13760, *Rush Action Slip*). Write/stamp the word, "PASS," in purple, on the upper right hand corner of this form. Attach to the *Audit Report* - Form FTB 6430.
- *PAWS/CLAWS Batch Control Worksheet* - Form FTB 6148. Optional for field auditors. Write/stamp the word, "PASS" across the front of the hard copy of this form in purple.
- Put the *PAWS NPA Worksheet* - Form FTB 6831, the *BETS NPA Worksheet* - Form FTB 6830-BCT, the *Accounting Instructions - Corp.* - Form FTB 6213A, the *Auditor's Recommendation Formal Claims* - Form FTB 6638, and the *PIT Over-assessment Form* - Form FTB 6846 behind the *Audit Report* - Form FTB 6430. Write/stamp the word, "PASS," in purple, on the upper right hand corner of the hard copy of the forms.
- Any correspondence sent outside of PASS.
- Received Correspondence (index).
- All received correspondence and documentation.
- Tax Return(s). Write/stamp the word, "PASS," in purple, on the upper right hand corner of the returns. If this interferes with the Document Locator Number, print/stamp the word in the middle of the return.

Central Office: assemble the physical file in this order:

- *Audit Report* - Form FTB 6430. Write/stamp the word, "PASS" across the top of this form in purple.
- Rush tag if needed (see GTAM 13760, *Rush Action Slip*). Write/stamp the word, "PASS" in purple, on the upper right hand corner of this form. Attach to the *Audit Report* - Form FTB 6430.
- *PAWS/CLAWS Batch Control Worksheet* - Form FTB 6148. Write/stamp the word, "PASS" across the front of the hard copy of this form in purple.
- Put the *PAWS NPA Worksheet* - Form FTB 6831, the *BETS NPA Worksheet* - Form FTB 6830-BCT, the *Accounting Instructions - Corp.* - Form FTB 6213A, the *Auditor's Recommendation Formal Claims* - Form FTB 6638, and the *PIT Over-assessment Form* - Form FTB 6846 behind the *Audit Report* - Form FTB 6430. Write/stamp the word, "PASS" in purple, on the upper right hand corner of the hard copy of the forms.
- Tax Return(s). Write/stamp the word, "PASS" in purple, on the upper right hand corner of the returns. If this interferes with the Document

The information provided in the Franchise Tax Board's internal procedure manuals does not reflect changes in law, regulations, notices, decisions, or administrative procedures that may have been adopted since the manual was last updated

CALIFORNIA FRANCHISE TAX BOARD

Internal Procedures Manual General Tax Audit Manual

Locator Number, print/stamp the word in the middle of the return.

- Any correspondence sent outside of PASS with a Sent Correspondence folder screen print. Attach to the back of the return for PIT only. If a corporation, place the correspondence in the corporation folder.
 - Received Correspondence folder screen print (index). Attach to the back of the return for PIT only. If a corporation, place the correspondence in the corporation folder.
 - All received correspondence and documentation. Attach to the back of the return for PIT only. If a corporation, place the correspondence in the corporation folder.
 - **NOTE:** All Central Office PASS cases, subject to review, must have the Statute of Limitations date written and circled in red, on the notes section of the *PAWS/CLAWS Batch Control Worksheet* - Form FTB 6148.
-

Reviewed: April 2003

CALIFORNIA FRANCHISE TAX BOARD

Internal Procedures Manual

General Tax Audit Manual

13265 REFERENCE RETURNS

Tax returns associated with the audit for years or entities that we did not audit, and where we did not create a case unit, are called Reference Returns. Return any tax returns that you used as a reference to Data Services and Storage Section after the case is released. If you want to keep those returns with the audit file, you must create a case unit for each return in PASS. This will help us to track the physical returns' location.

Reviewed: April 2003

CALIFORNIA FRANCHISE TAX BOARD

Internal Procedures Manual
General Tax Audit Manual

13270 VERIFY ADDRESSES, STATUTE, CASE INFORMATION, ETC.

Verify all information before closing the case.

- Taxpayer's address. Is it consistent between PASS and BETS/TI? Should we update it?
- The Statute of Limitations for each individual year's and each entity.
- Are any statute of limitations waivers attached to the front of the returns?
- Is the documentation cross-referenced?
- If you propose a Notice of Proposed Assessment, have you explained why? It is not enough to state, "*The revision is based on the schedules provided to the taxpayer's representative by the auditor.*" You must explain the adjustment on the Notice.

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CALIFORNIA FRANCHISE TAX BOARD

Internal Procedures Manual

General Tax Audit Manual

13280 TRANSFER CASE/CASE UNIT TO NEXT LEVEL

GTAM 13281 Transferring Case Unit Only

When closing a case, transfer the online file and the physical files at the same time. Transfer the online file to the appropriate person, team, or group.

Immediately transfer the physical file to the same person, team, or group. Be sure that all pertinent information is in the online file in case the physical file is delayed. This way, staff can process the online file without the physical file.

Reviewed: April 2003

CALIFORNIA FRANCHISE TAX BOARD

Internal Procedures Manual
General Tax Audit Manual

13281 Transferring Case Unit Only

You may close Case Units separately from other associated case units. In addition, you may keep case units on separate worklists whether those worklists are individual or group. For example, if you need to close one partner's case unit while keeping two other partners' case units, you can close one partner.

If the case unit needs more work:

- Leave the case unit open.
- Send through Review, if necessary.
- Send through Audit Business Support groups for processing.
- Use Sticky Note to tell other users that you need the case unit back (see GTAM 14510, *Sticky Notes*, for additional information).

If no more work is needed on the case unit, follow normal closing procedures.

Reviewed: April 2003

CALIFORNIA FRANCHISE TAX BOARD

Internal Procedures Manual

General Tax Audit Manual

13290 DEACTIVATE THE BETS NOTIFICATION FLAG

When a case is completed, deactivate the BETS Notification Flag. Audit Business Support deactivates the Notification Flag on all cases routed to them. For cases not routed through Audit Business Support, such as no-change cases and surveys, you or the supervisor deactivate the Notification Flag.

Reviewed: April 2003

CALIFORNIA FRANCHISE TAX BOARD

Internal Procedures Manual
General Tax Audit Manual

13300 OFFSET CASE

An Offset Case issues one or more Notices of Proposed Assessment, Notices of Action, or Notices of Revision, and one or more Notices of Proposed Over-Assessment to the same taxpayer for different years. Offset procedures apply audit-generated refunds against outstanding deficiencies.

The deficiency assessment and the proposed overpayment will automatically be held pending the protest period expiration. If the taxpayer does not file a protest, then the Audit Business Support Section makes the appropriate offset. In some situations, a deficiency or overpayment may *not* be related to another Notice of Proposed Assessment or Overassessment. In these situations, they can process the unrelated notice separately regardless of whether a protest is filed.

You need to identify all Offset Cases as:

- **Agreed** (taxpayer agrees with the proposed adjustments);
- **Unagreed Related** (related adjustments resulting in an notice of Proposed Assessment and Overassessment for different tax years); or
- **Unagreed Unrelated** (unrelated adjustments in different tax years).

The manual forms and PASS templates include "Notice Related" and "Notice Unrelated" boxes. Mark the appropriate box when preparing the worksheets.

Notices are "related" if the adjustments depend upon adjustments made in other tax years for the same taxpayer. An example of related notices is a bad debt that was disallowed in one tax year, resulting in a tax deficiency, but allowed in a different tax year, resulting in an over-assessment.

"Unrelated" notices are notices for the same taxpayer that are not transactionally related. The taxpayer's protest of one notice would have no effect on the other notice. An example of unrelated notices is a bad debt adjustment in one tax year, and a business expense adjustment in a different tax year.

Once the notices have finalized, the Notices of Proposed Overassessment offset, and we refund or bill the net amount.

To facilitate offset case processing, observe the following steps:

The information provided in the Franchise Tax Board's internal procedure manuals does not reflect changes in law, regulations, notices, decisions, or administrative procedures that may have been adopted since the manual was last updated

CALIFORNIA FRANCHISE TAX BOARD

Internal Procedures Manual
General Tax Audit Manual



CORPORATION PROCEDURES

Notices of Proposed Assessment or Overassessment with unrelated over-assessment notices:

1. Check the unrelated notice box on any over-assessment notices that we should refund and not offset if a protest is filed.
2. Check the related box on any Notices of Proposed Assessment or Overassessment that should remain together.
3. We forward protested Notices of Proposed assessment to the Protest Unit for resolution.
4. Refund the Notices of Proposed Overpayment without offset.
5. If the notices are not protested, offset the Overassessment against the Assessment and refund or bill the balance.

Related Notices of Proposed Assessment and Overassessment:

1. Check the related notice box on all over-assessments and assessment notices. Keep cases including all related notices together in one related package, sometimes known as a consent package.
2. Issue Notices of Proposed Assessment and Overpayment and hold them pending protest for 90 days, 60 days protest period and 30 days processing.
3. If we receive no protest after the 90 days, offset the Notices of Proposed Overpayment against the Assessment and refund or bill the balance.
4. If a protest is filed, forward all related overpayment and assessment notices to the Protest Unit for resolution.
 - After the protest is resolved, issue Notices of Action and reissued notices of Proposed Overpayment and hold for 60 days (30 day appeal + 30 day processing) pending appeal.
 - After 60 days, offset Notices of Proposed Overpayment against the Notices of Action and refund or bill the balance if no appeal is filed.
5. If an appeal is filed, forward all related overpayment and assessment notices to the Legal Appeals Desk for resolution.

The information provided in the Franchise Tax Board's internal procedure manuals does not reflect changes in law, regulations, notices, decisions, or administrative procedures that may have been adopted since the manual was last updated

CALIFORNIA FRANCHISE TAX BOARD

Internal Procedures Manual General Tax Audit Manual

- Do not process any bills and refunds/offsets resulting from related notices until the appeal is resolved.
- After the appeal is resolved, offset Notices of Proposed Overpayment against the Notices of Determination and bill or refund the balance.

Authorized Offset/Mixed Files with Related Over-Assessment and Assessment Notice(s):

1. Check the related notice box on all over-assessment and assessment notices. Write the word "*OFFSET*" on top of the over-assessment notices to indicate taxpayer authorization. Authorization is written approval from the taxpayer or representative, to offset an over-assessment to an assessment before expiration of the 60 days protest period.
2. If a technician in BE Audit Business Support determines that a refund is due after offsetting the overpayment, offset immediately and issue the refund.
3. If the related over-assessment does not result in a refund, hold the case 90 days (60 days pending protest + 30 days processing). **NOTE:** Do not pursue an authorization to offset if the audit is not agreed.
 - Miscellaneous Audit Instructions: If miscellaneous instructions are included in one of the above case scenarios and a bill or refund is issued despite a filed protest, check the unrelated notice box. We will send the refund or bill before referring the case to the protest unit. A few examples include: instructions for self assessed tax/Revenue Agent Report that we should bill immediately, cancellation of tax due to an amended return being accepted as filed/Revenue Agent Report that requires immediate refund despite protest.

PIT PROCEDURES

Notices of Proposed Assessment/Overassessment with unrelated over-assessment notices:

1. Check the unrelated notice box on any over-assessment notices that should be refunded and not offset in case a protest is filed.
2. Check the related box on any notices that should remain together.
3. Forward protested Notices of Proposed assessment to the Protest Unit for resolution.
4. If *unagreed*, offset the Notices and refund or bill the balance to the taxpayer when the notice is final. If we receive a protest, *release the overassessment immediately, without offsetting against the*

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CALIFORNIA FRANCHISE TAX BOARD

Internal Procedures Manual General Tax Audit Manual

assessment. The assessment is then resolved through normal protest procedures.

5. If agreed, offset the Notices offset and refund or bill the balance to the taxpayer *upon issuing the Notices*.

Related Assessment and Over-Assessment Notice(s):

1. Check the related notice box on all over-assessment and assessment notices. Keep cases that include all related notices together in one related package.
2. For *unagreed* Notices of Proposed assessment and Overpayment, Audit Business Support will hold pending protest for 90 days (60 day protest period + 30 day processing). If *agreed*, offset the Notices and refund or bill the balance to the taxpayer upon issuing the Notices.
3. If we do not receive a protest after the 90 days, Audit Business Support will offset the notices of Proposed Overpayment against the Assessment and refund or bill the balance.
4. If a protest is filed, forward all related overpayment and assessment notices to the Protest Unit for resolution.
 - After the protest is resolved, issue Notices of Action and reissued Notices of Proposed Overpayment and hold for 60 days (30 day appeal + 30 day processing) pending appeal.
 - After 60 days, offset Notices of Proposed Overpayment against Notices of Action and refund or bill the balance if no appeal is filed.
5. If an appeal is filed, forward all related overpayment and assessment notices to the Legal Appeals Desk for resolution.
 - Do not process any bills or refunds/offsets resulting from related notices until the appeal is resolved.
 - After the appeal is resolved, offset the Notices of Proposed Overpayment against Notices of Determination and refund or bill the balance.

Authorized Offset/Mixed Files with Related Over-Assessment and Assessment Notices:

1. Check the related notice box on all over-assessment and assessment notices. Write the word "*OFFSET*" on top of the over-assessment notices to indicate taxpayer authorization. Authorization is written approval from the taxpayer or representative to offset an over-assessment to an assessment before expiration of the 60-day protest period.

The information provided in the Franchise Tax Board's internal procedure manuals does not reflect changes in law, regulations, notices, decisions, or administrative procedures that may have been adopted since the manual was last updated

CALIFORNIA FRANCHISE TAX BOARD

Internal Procedures Manual General Tax Audit Manual

2. Offset the Assessments and Overassessments and refund or bill the balance to the taxpayer *upon issuing the Notices*. **NOTE:** Do not pursue an authorization to offset if the audit is unagreed.
 - Miscellaneous Audit Instructions: If miscellaneous instructions are included in one of the above case scenarios and a bill or refund should be issued despite a filed protest, check the unrelated notice box. We will send the refund or bill before referring the case to the protest unit. A few examples include: instructions for self assessed tax/Revenue Agent Report that we should bill immediately, cancellation of tax due to an amended return accepted as filed/Revenue Agent Report that needs immediate refunding despite the protest.
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Reviewed: April 2003

CALIFORNIA FRANCHISE TAX BOARD

Internal Procedures Manual
General Tax Audit Manual

13400 PERSONAL INCOME TAX / CORPORATION MIXED FILES

A Personal Income Tax/Corporation mixed file includes notices for related PIT and corporation taxpayers and generally involves income and deductions transferred from a PIT account to a corporation account, or vice versa. These cases require special handling.

Occasionally, the file consists only of Notices of Proposed Assessment. However, the majority includes Notices of Proposed Assessment for one taxpayer and over-assessments for the other. Over-assessments for mixed files are issued as "*Notice of Proposed Over-assessments*," since we do not generally issue refunds until the related Assessment is either paid or final.

The author must identify PIT/Corporation Mixed files by checking the "*MIXED FILE*" box on the *PAWS/CLAWS Batch Control Worksheet* and/or including the words "*MIXED FILE*" on the *Audit Report* - Form FTB 6430.

All Notices of Proposed Overassessment should inform the taxpayer that we do not issue refunds until the related Notices of Proposed Assessment are paid or final.

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